12

Ann D Berkowitz
Project Manager – Federal Affairs

1300 I Street, NW
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Washington, DC 20005
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May 15, 2003

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Petition of Verizon for Forbearance from the Prohibition of Sharing Operating, Installation and Maintenance Functions Under Section 53.203(a)(2) of the Commissions Rules*, CC Docket No. 96-149; *Verizon Telephone Companies Section 63.71 Application to Discontinue Expanded Interconnection Service Through Physical Collocation*, WC Docket No. 02-237

Dear Ms. Dortch:

Today, Dee May and Ed Shakin of Verizon met with Chris Libertelli of Chairman Powell's office to discuss the above proceedings. All issues discussed are consistent with the record The handout used during those meetings is attached. Please let me know if you have any questions.

Sincerely,

Ann D Berkowitz

Attachment

cc: C. Libertelli

Operating, Maintenance & Installation (OI&M) Forbearance

Background and Overview

- The OI&M restriction is not mentioned anywhere in the Act.
- The Commission created it when it adopted rules to implement the "operate independently" provision in section 272(b)(1).
- The Commission was primarily concerned about its ability to monitor the allocation of costs between the BOCs and their 272 affiliates.
- When it was adopted, the Commission did not have a record to conduct a cost-benefit analysis of using structural separation as opposed to accounting safeguards.
- On 8/5/02, Verizon filed its petition for forbearance from the prohibition of OI&M in CC Docket 96-149.

There is Support for Forbearance

- Verizon's has several years of experience with 272 affiliates.
- The OI&M restriction is the major factor in the additional costs caused by the 272 separate affiliate rules. The prohibition:
  - Prevents Verizon from offering one-stop customer interface for repair and provisioning.
  - Imposes duplicative costs on Verizon's affiliates by requiring them to hire additional personnel to do provisioning and maintenance work that could be done more efficiently by sharing personnel with the BOC.
  - Requires the affiliate to develop and operate its own operating support systems when the BOCs' OSSs could perform the same tasks with little modification.

Verizon's Analysis Shows

- The costs of complyıng with the OI& M restriction far outweigh any previously perceived benefits.
- Verizon incurred approximately $320 million in expenses to comply with the section 272 separate affiliate requirements from 1998-2002, of which $212 million is related to the OI&M restriction.
- Verizon could not eliminate all sunk investments if the OI&M restriction were eliminated today, but it could achieve about $183 million in incremental savings from 2003-2006 by sharing these services with the BOCs.

There is No Regulatory Need for the Restriction

- BOCs and their 272 affiliates should be allowed to share OI& M services just as they are permitted to share administrative and other services.
- There is no fundamental difference between the cost allocations necessary to monitor the sharing of OI& M and services such as finance, human resources, legal and accounting.
- Positive time reporting can be used as it is used today for nonregulated services such as inside wiring maintenance.

Concerns Raised are Unfounded

- Cross-subsidization is not a realistic danger for carriers such as the BOCs who are subject to price-based regulation.
- Elimination of sharing and adoption of CALLS, which eliminated the need for cost supported SLC and which reduces the X factor to the GDPPI when the average traffic sensitive rate hits the target (which it has in virtually all of Verizon areas) are <u>changed circumstances</u> which avoid the cross-subsidization concerns that the Commission cited in adopting the OI&M restriction.
- Restriction is not necessary to prevent discrimination -- the Commission retains ample authority under the Act:
  - All Section 272(e) nondiscrimination safeguards continue to apply until sunset.
  - Sections 272(e)(1) and (e)(3) ensure parity of performance and access charge imputation even after sunset.
  - Sections 201 and 202 ensure the reasonableness of access charges and prohibit discrimination.
  - Section 251(c) and the Commission's network disclosure rules provide additional safeguards.

Long Distance Market Share

- Arguments that the OI&M restriction hasn't handicapped BOCs because they have been able to gain significant shares of the long distance market in a relatively short time are beside the point.
  - They shed no light on the artificial costs imposed by the restriction.
  - BOCs' success is primarily the result of their marketing and sales efforts in addition to innovative pricing plans.
  - Moreover, the BOCs have courted the residential and low-volume customers that the IXCs were losing interest in.
  - In the large business market, the BOCs are starting with virtually no market share and incumbent IXCs still dominate.

Inefficiencies Will be Exacerbated in a Broadband Environment

- The OI&M restriction requires the use of multiple work groups to deal with arbitrarily delineated demarcations between "local" and "long distance."
- The restriction saddles the BOCs and the 272 affiliates with separate systems for network creation, ordering, provision, surveillance, maintenance and repair.
- Elimination of this restriction would allow Verizon to compete on equal terms with other broadband providers

Impact on the Large Business Market

- The OI&M restriction puts Verizon at a significant disadvantage in competing with carriers that are able to offer an integrated service platform using their local and long distance facilities.
- Many of Verizon's competitors provide their own transmission facilities directly to the customer's location, seamlessly integrating "local" and "long distance" networks and using a single work force to respond to installation and repair requests.
- The OI&M rules result in handoffs of customer requests for service and repair that add costs and difficulty in meeting large business customer expectations.

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May 19, 2003

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Petition of Verizon for Forbearance from the Prohibition of Sharing Operating, Installation and Maintenance Functions Under Section 53.203(a)(2) of the Commissions Rules,* CC Docket No. 96-149

Dear Ms. Dortch:

Today, Dee May and Ed Shakin of Verizon met with Matt Brill of Commissioner Abernathy's office to discuss the above proceeding. All issues discussed are consistent with the record. The handout used during the meeting is attached. Please let me know if you have any questions.

Sincerely,

Ann D Berkowitz

Attachment

cc: M. Brill

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Dear Ms. Dortch:

Today, D. May, A. Trinchese, C. Yates, G. Cooke, and J. DiBella of Verizon met with M. Carey, C. Rand, R. Tanner, R. Kaufman, P. Megna and W. Dever of the Wireline Competition Bureau and M. Stephens of the Enforcement Bureau to discuss the above proceeding. During the meeting, Verizon referenced its May 12, 2003 ex parte. The handouts used during the meeting are attached. Please let me know if you have any questions.

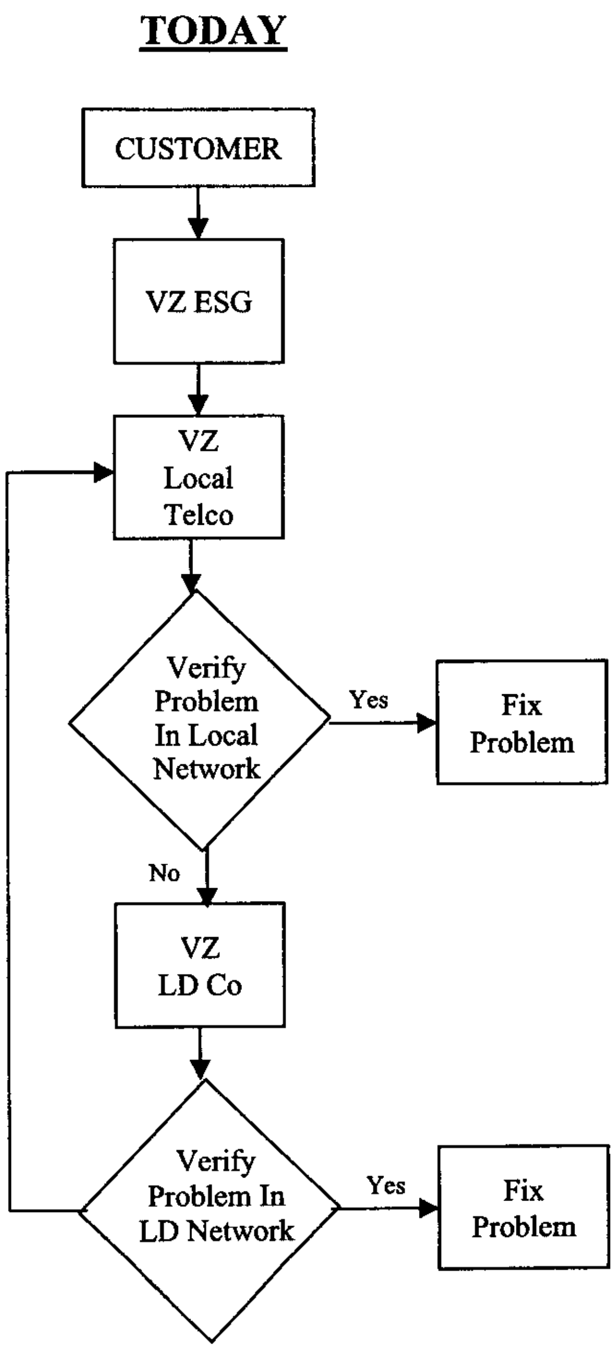
Sincerely,

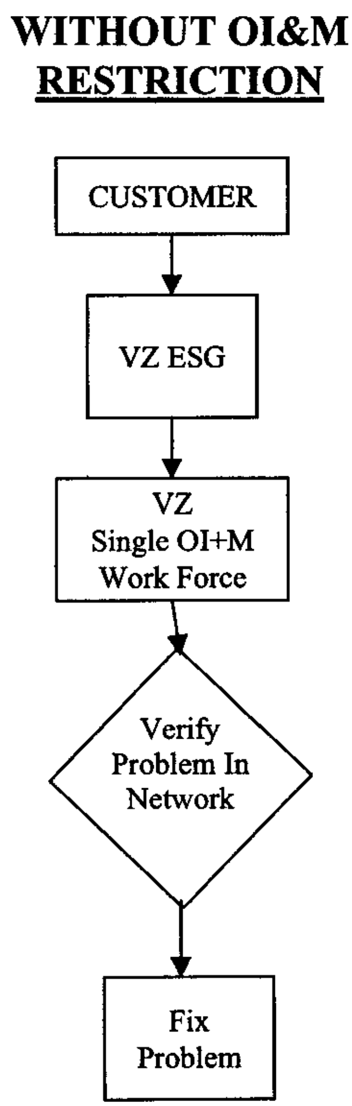
Ann D Berkowitz

Attachments

cc: M. Carey
C. Rand
R. Tanner
R. Kaufman
P. Megna
W. Dever
M. Stephens

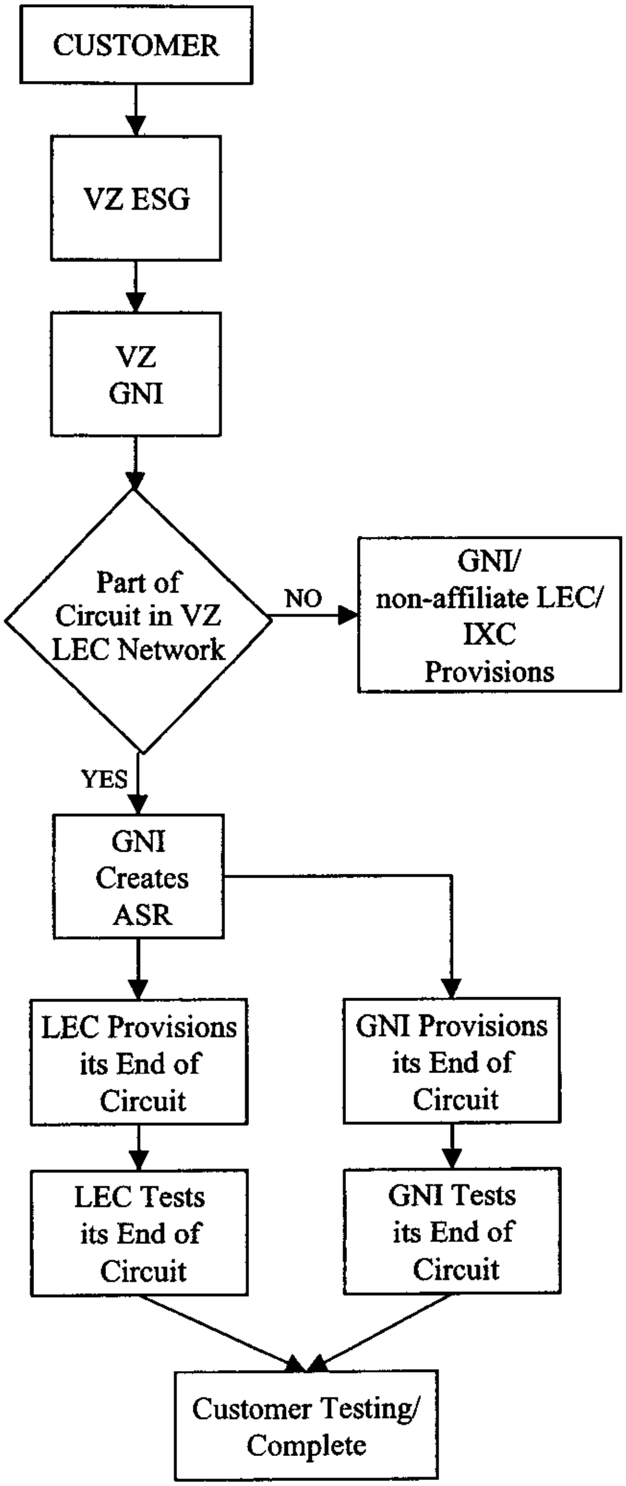
Responding to a Service Problem
Large Business Customer



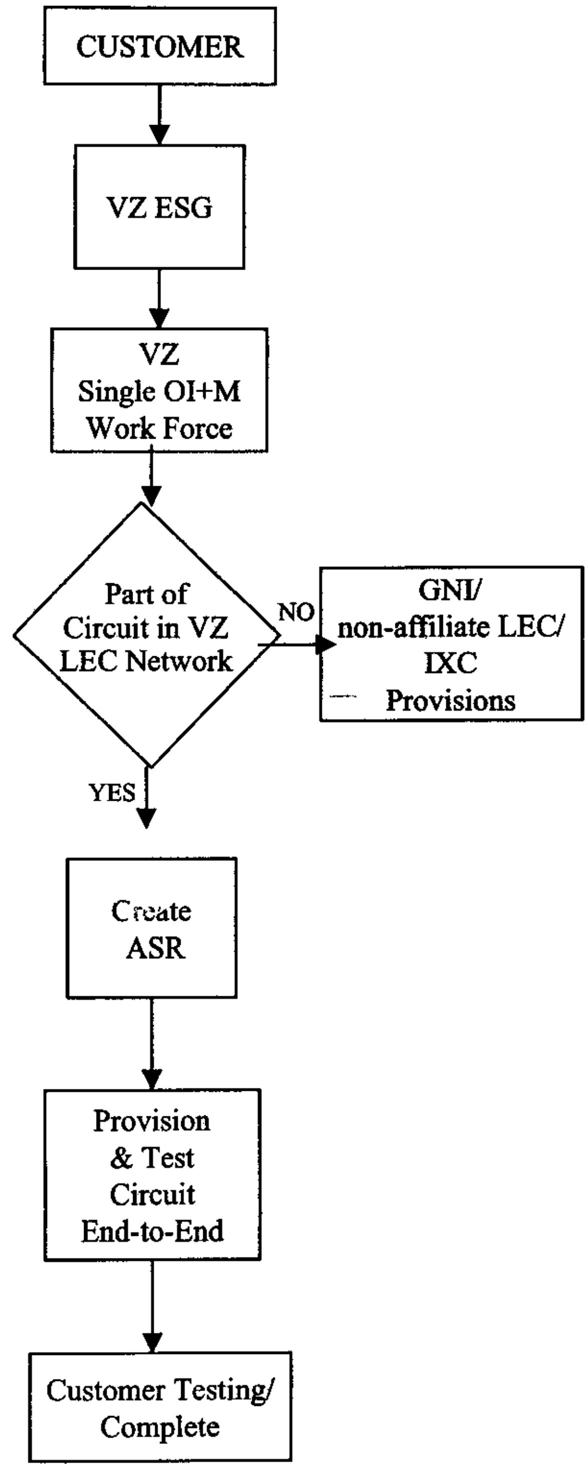


Provisioning a Private Line
Large Business Customer

TODAY



WITHOUT OI&M RESTRICTION



Total Verizon GNI Expense
1998-2002

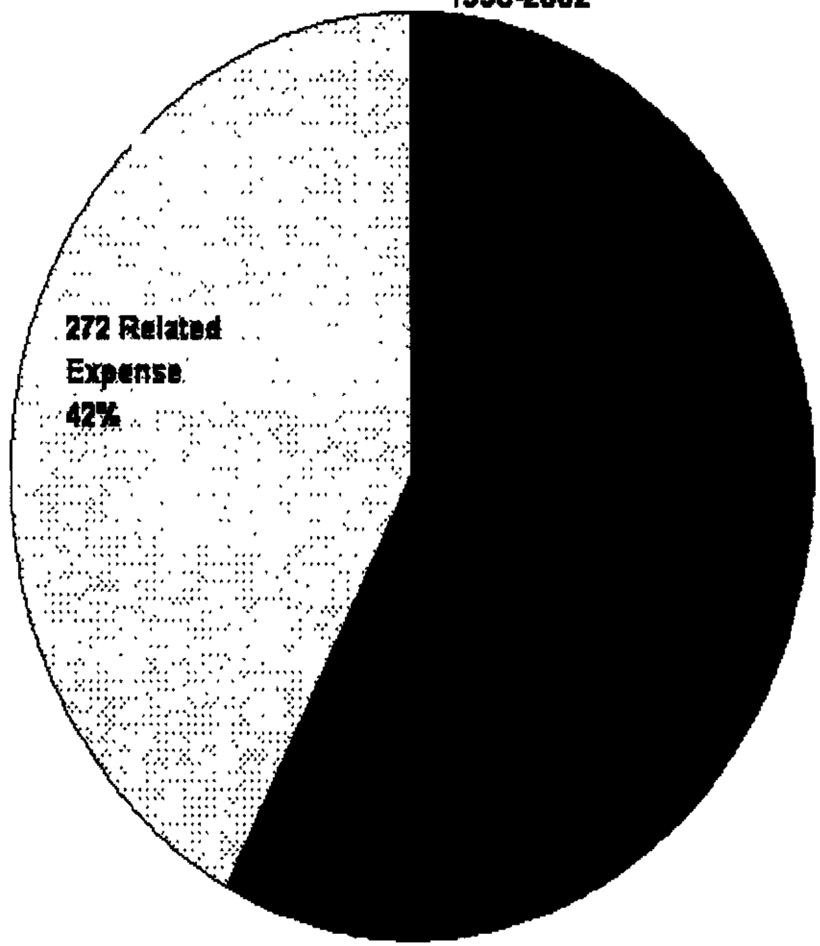


Chart A

Total 272 Expenses For GNI 1998-2002

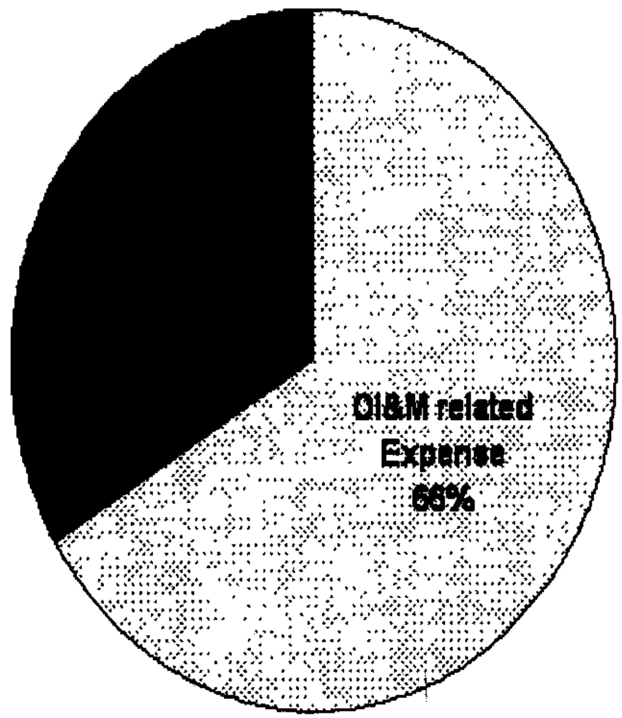
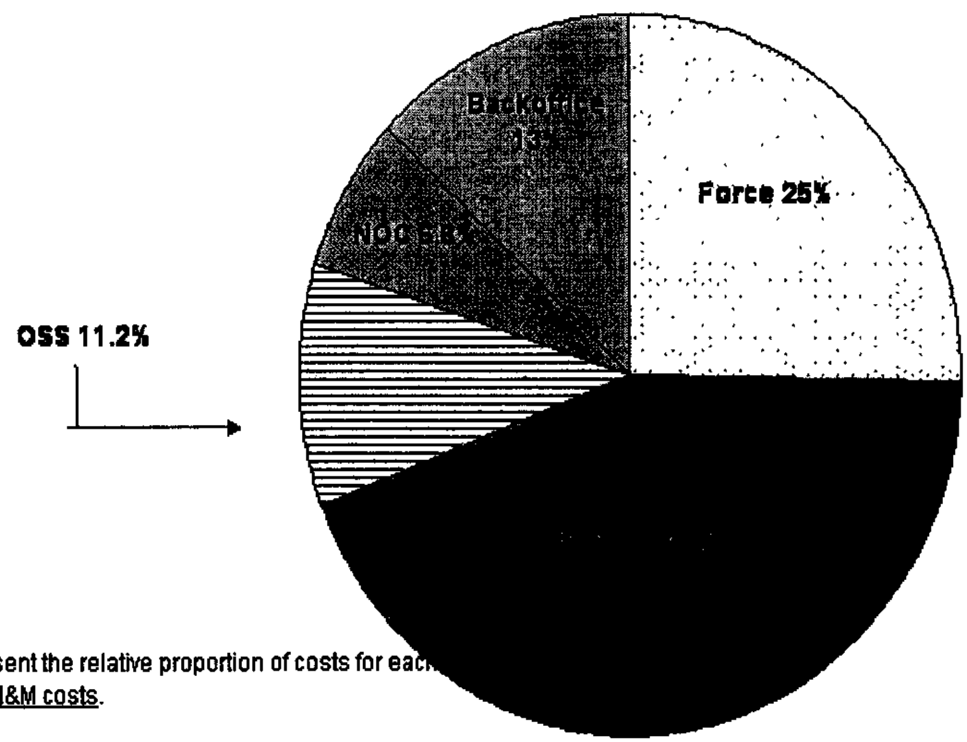


Chart B

272 Expense Due To OI&M Restriction
1998-2002



Note Precents represent the relative proportion of costs for each category of the <u>total OI&M costs</u>.

Chart C